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Forex: commodities you can trade in

Familiarity breeds opinion which is just one step for a trader to dip into markets such as oil and natural gas



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Familiarity with commodities can be precious when trading currencies. It can also give traders the incentive to broaden their trading horizons. While commodity price action may not be the primary drivers of currency moves, they can be contributory factors.

For example, to understand the way the market values currencies such as the Australian dollar or the Norwegian krone requires some degree of familiarity with, for the former, moves in metals, and for the latter, moves in energy prices.

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That reflects the importance of raw materials exports for the Australian economy and of the energy sector for Norway. Energy price moves can also, on occasion, help shape the direction of the Canadian dollar.

But commodity price moves, especially when extreme, may also influence the currencies of key consumers.

Following the downsizing of its nuclear power output after the Fukushima disaster in 2011, Japan's reliance on imported energy has only increased.

And so when the oil price rises and falls, the perceived impact on the Japanese economy can have potential implications for the fortunes of the Japanese yen.

But if familiarity with commodity price moves can help inform currency trading strategies, it can also open up a raft of new trading opportunities. If a foreign exchange trader considers the direction of energy prices is pushing a currency one way or the other, why not take a view on energy itself?

Familiarity breeds opinion which is just one step, for a trader, from taking a dip into markets such as oil and natural gas.

All financial products traded on margin carry a high degree of risk to your capital.

(Note: Any forecasts given are not a reliable indicator of future performance and the decision to act on any ideas and suggestions presented is at the sole discretion of the reader.)

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